

# Investor Presentation

## FY12 full year results and acquisition of Daniels Electronics

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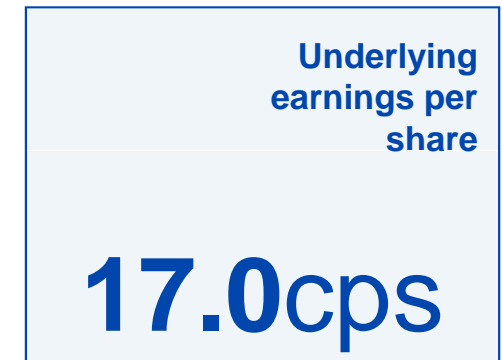
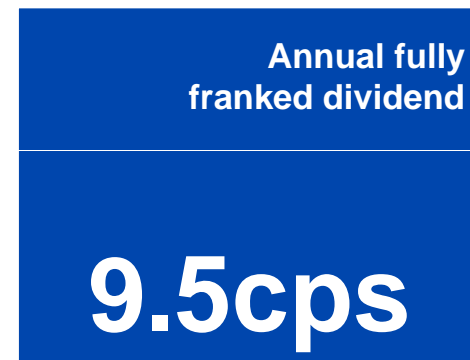
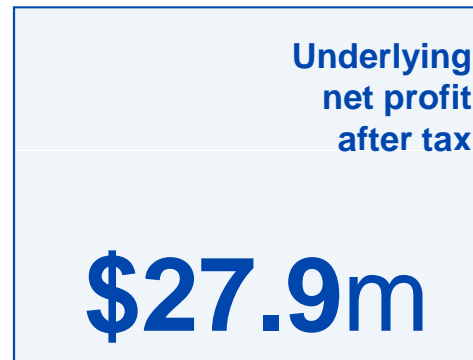
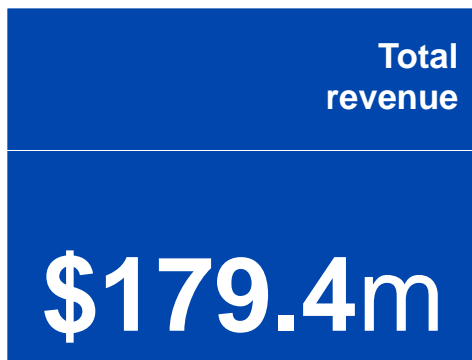
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# Overview

## Annual results

- Record reported net profit of \$23.1 million
- Underlying net profit increased by 19% to \$27.9 million
- Continued growth of metal detector sales and major new product release
- Major new Radio Communications products released
- Acquisition of Minetec brings diversification into resources technology and services sector
- Successful divestment of non-core Satellite Communications assets
- Increase in annual fully franked dividend of 5.6%



# Overview (cont.)

## Acquisition of Daniels Electronics and capital raising

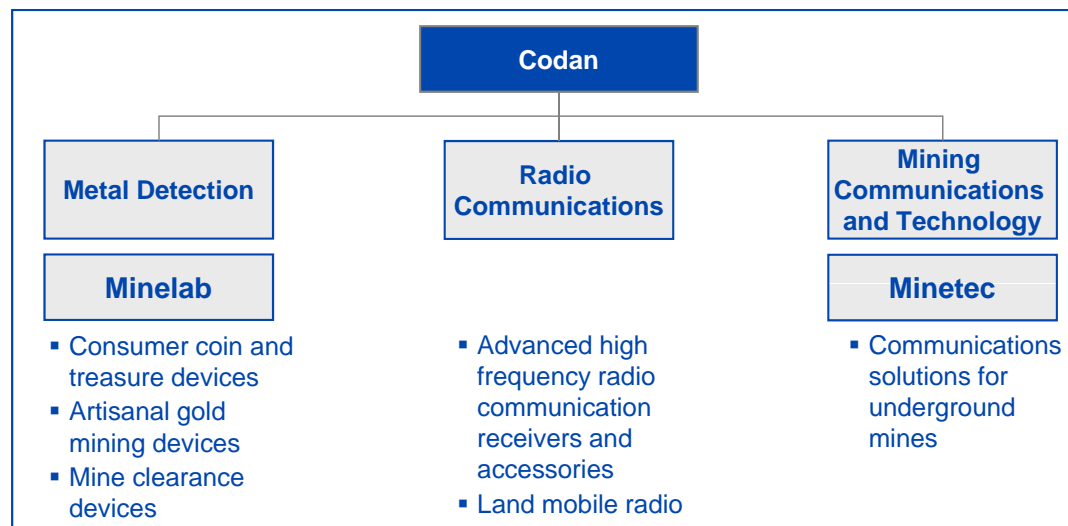
- Codan has acquired 100% of Daniels Electronics Ltd (Daniels), a leading North American based designer, manufacturer and supplier of land mobile communications systems
  - Delivers on Codan's stated strategy of growing market share and diversifying its Radio Communications product offering
  - Unique opportunity to acquire an established leader in the land mobile radio industry
  - Provides Codan with an ability to offer land mobile radio solutions in conjunction with its HF products across its worldwide distribution network, primarily in the emerging world
- Purchase price of C\$27.0 million (A\$25.8 million<sup>1</sup>) comprising an upfront payment of C\$25.0 million (A\$23.9 million<sup>1</sup>) and an earn-out of C\$2.0 million (A\$1.9 million<sup>1</sup>) over 2 years
- Substantial synergies to be derived from the acquisition
  - Ability to leverage Codan's brand and global distribution network to drive sales growth
  - Generate supply chain efficiencies and aggressively reduce product costs
  - Potential application of Daniels' land mobile radio solution into the mining communications market
- Acquisition has been partially funded via an institutional placement that raised A\$12.5 million and a share purchase plan that raised approximately A\$4.7 million
- Acquisition is expected to be earnings per share accretive in FY14
- Balance sheet strength preserved as Codan continues to explore long-term strategic initiatives to grow its business

<sup>1</sup>Assumes exchange rate of C\$1.046 : A\$1

# Best-in-Class Electronic Solutions Directed at Global Markets

- Codan is a leading designer and manufacturer of radio communications, metal detection and mining technology products
  - Founded in 1959
  - Head office in Adelaide, South Australia with 500 staff worldwide
  - Products sold in over 150 countries (export sales represent approximately 85% of total revenues)
- Codan's success has been driven by its ability to optimise the development and manufacture of electronics products and associated software
  - Codan delivers cost-effective solutions to a range of customers in the communications and metal detection markets globally
  - Well regarded in key markets (primarily by aid agencies, business, governments (military and security) and dedicated individuals)

## Codan's business structure



# Delivering on Strategic Objectives



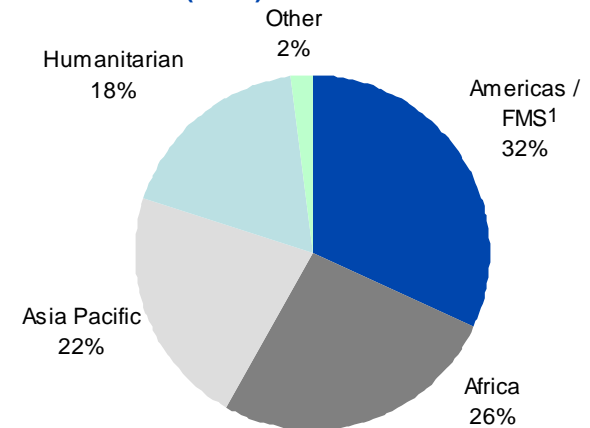
- Divestment of non-core business, satellite communications assets
- Acquisition of Minetec, a provider of communications and technology solutions to the mining sector
- Acquisition of Daniels Electronics, a market leader in land mobile radio communication technology
- Release of three new major product platforms in the last quarter of FY12
- Significant market development investment to expand market share

# Radio Communications

- Over 50 years of experience in developing high frequency radio solutions and support
- Product offering includes portable, vehicular and base station receivers and associated accessories
  - Solutions vary from basic voice communications to data, email, GPS tracking, security and interoperability requirements
- Continues to increase market position in the targeted global security, peacekeeping and military segments
- Aggressive growth plans over the next 3 years:
  - Leverage new radio communications products
  - Capture growth in emerging markets
  - Target local manufacturing in key growth markets



Sales diversification (FY12)



1. Foreign Military Sales

MINETEC

MINELAB

CODAN  
RADIO COMMUNICATIONS

CODAN

# Radio Communications (cont.)

## FY12 result commentary

- Sales and profitability for radio communication products increased over prior year
  - Margin performance improved due to higher value-add solutions
  - Robust worldwide pipeline of sales opportunities
- New software-defined radio *Envoy*™ released to the market in June 2012
  - Targeted at emerging world market
  - Well received by dealer network
  - Differentiated product is expected to drive future growth
- Management are focused on expanding the business beyond its current HF product offerings
  - Daniels acquisition offers customers a one-stop shop for HF and land mobile radio solutions
  - Continue to execute on strategic plan

## FY13 objectives

- Integrate Daniels business
- Consolidate presence in rapidly-growing emerging markets
- Introduce more advanced features to existing product suite
- Target strong sales growth



# Daniels Electronics Limited

- Daniels has a 60-year history as a leading designer, manufacturer and supplier of land mobile radio (LMR) communications
  - Predominantly serves public safety, natural resource, transportation and other commercial markets
- Broad range of differentiated solutions: renowned for ruggedness and reliability
- Pioneer in the commercialisation and development of the digital standard for radio interoperability among emergency response governmental organisations
  - Recognised in the industry as a leading manufacturer and supplier of LMR technology
- Complementary to Codan's existing radio communications business
  - LMR solutions are required by many of Codan's existing customers
  - Most of Codan's dealers are also active in the LMR market
  - Daniels' interoperability and low power consumption technology are ideal for emerging international markets

## Daniels LMR products



# Transaction Rationale

✓ <b>Ability to leverage distribution networks</b>	<ul style="list-style-type: none"><li>▪ Opportunity to offer LMR to Codan's current customer base especially emerging markets</li><li>▪ Interoperability and low power consumption technologies are ideal for emerging international markets and North-American digital upgrade opportunities</li></ul>
✓ <b>Quality business with market leading technology</b>	<ul style="list-style-type: none"><li>▪ Complementary business with highly capable management team</li><li>▪ Daniels offers a catalogue of differentiated products which focus on low power consumption infrastructure and custom, multi-frequency modular system requirements</li></ul>
✓ <b>Financial considerations</b>	<ul style="list-style-type: none"><li>▪ Demonstrated solid profitability over many years</li><li>▪ Acquisition expected to be accretive to earnings in FY14</li><li>▪ Daniels is expected to contribute approximately C\$2 million EBITDA for the 10 months to 30 June 2013 after costs to expand sales into the emerging world and one-off integration expenses</li><li>▪ Balance sheet strength maintained (pro-forma gearing of 19.4% post acquisition and capital raise)<sup>1</sup></li></ul>
✓ <b>Synergies</b>	<ul style="list-style-type: none"><li>▪ Most of Codan's existing dealers supply land mobile radio solutions</li><li>▪ Opportunity to cross-sell Codan products into North American market</li><li>▪ Generate supply chain efficiencies and aggressively reduce product costs</li></ul>

1. Assumes total capital raising of \$17.5 million

MINETEC



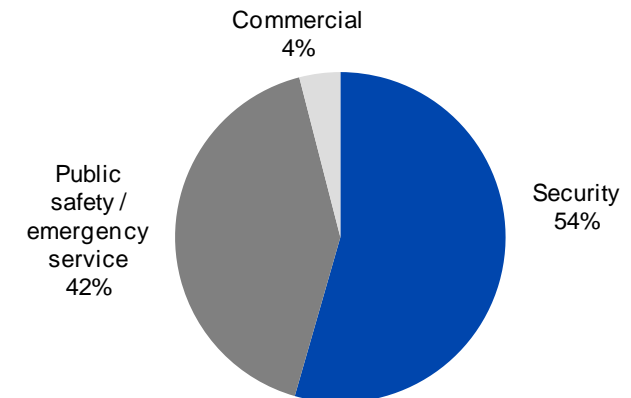
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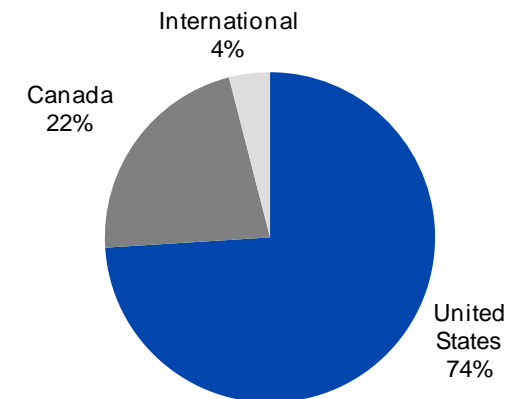
# Markets and Distribution

- Existing High Frequency (HF) radios provide long range communications without the need for intermediate infrastructure
- LMR systems provide short to medium range communications for areas with a concentrated group of users and require certain infrastructure
- Extensive North American distribution network
  - Current revenues predominantly derived from North America
  - Multi-channel distribution (director, representatives, dealers, integrators)
  - >150 partners
  - Daniels' top 10 customers are North American governments or government agencies
- Sales are mainly derived from specialised market segments such as public safety, which require high performance, high reliability communications solutions
- Key clients include fire services organisations, police, ambulance and other emergency service providers, military, forestry organisations, highways and road contractors and mining and exploration companies
- Majority of customers enter into multi-year contracts

Sales by industry segmentation (CY11)



Sales segmentation by geography (CY11)



# Markets and Distribution (cont.)

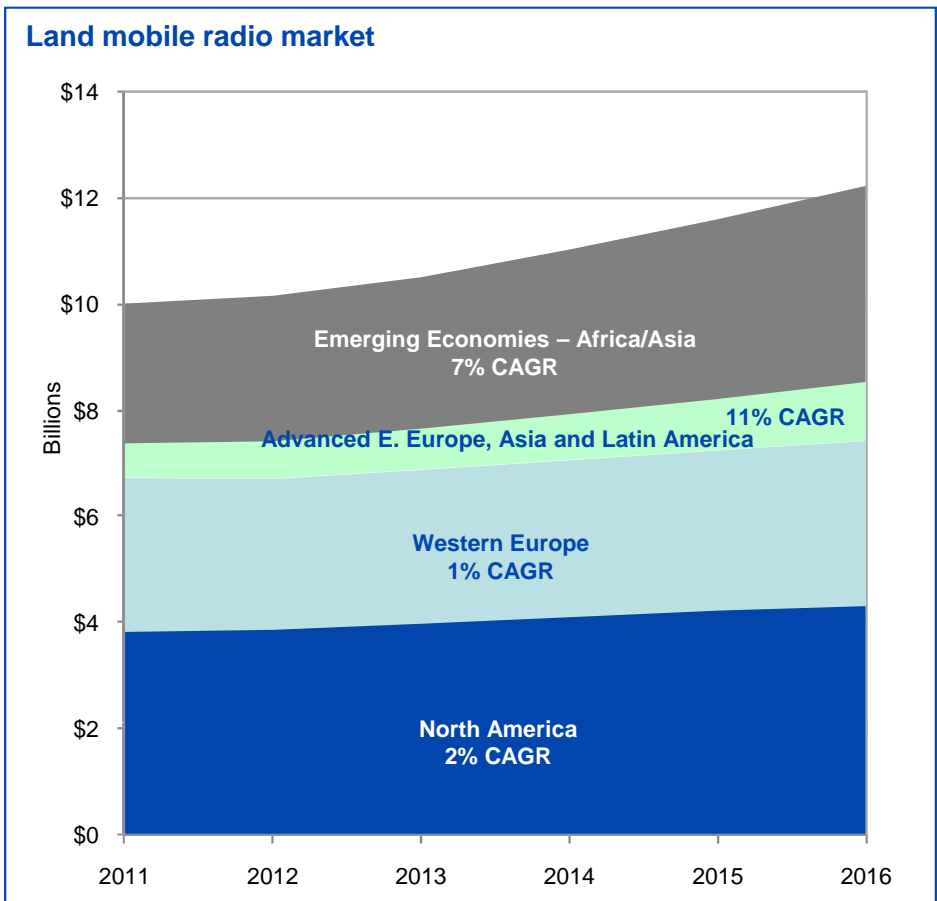
Codan's global distribution network can significantly enhance the sale of Daniels products



# Markets and Distribution (cont.)

## Significant market opportunity for Codan in the emerging world

<p><b>Africa</b></p>	<ul style="list-style-type: none"> <li>▪ Significant growth opportunity</li> <li>▪ Current installed base is primarily analogue – transition to digital will drive growth</li> <li>▪ Many countries continue to invest in security infrastructure</li> </ul>
<p><b>Asia</b></p>	<ul style="list-style-type: none"> <li>▪ Economic growth drives significant opportunities</li> <li>▪ Large scale upgrades to radio networks required</li> </ul>
<p><b>Other markets</b></p>	<ul style="list-style-type: none"> <li>▪ Latin America market provides excellent growth prospects</li> <li>▪ Middle East represents small total market, but a significant spender on a per user basis</li> </ul>



Source: The Avascent Group

# Metal Detection

- “World’s best metal detection technologies”
- Products and systems for the consumer, mine clearance and artisanal gold mining markets
- Accelerated level of new product development to drive future growth
- Continue to grow market share for coin and treasure machines
- Ongoing business development to take gold detection technology to commercial prospectors

## New release CTX3030



## Key products and target customers

Consumer products

- Detection of gold nuggets, coins, treasure and artefacts
- Key customers include serious hobbyists, semi-professional prospectors and archaeologists

Mine clearance

- Detection of land mines and unexploded ordnance by government and NGO demining organisations

Artisanal gold mining

- Detection of gold as a commercial enterprise by small groups of prospectors

# Metal Detection (cont.)

## FY12 result commentary

- Strong divisional result
  - Sales and profitability increased by 7% and 13% respectively over prior year
- Business development has resulted in increased sales of gold detection products
  - Demand coming from a greater number of African countries in FY12
  - More sustainable platform for future growth
- Continue to address counterfeit issue, actions taken to ensure customers have access to genuine products
- Reinforced its position as the global market leader for handheld metal detection devices
  - Innovative new coin and treasurer detector has been released
  - Compact F3 detector won the “Business and Technology” category of the Australian International Design Awards
- Demand for mine clearance detectors was boosted during the year with the award of a major contract in Cambodia

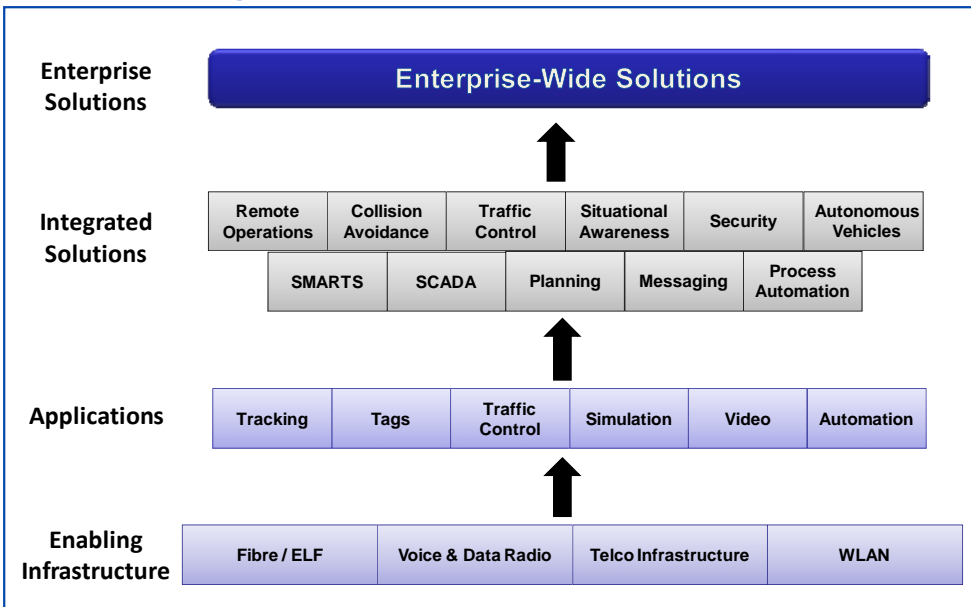
## FY13 objectives

- Well positioned for another strong year
- Expand gold detector sales into more regions
- Increase marketing support in new and established markets
- Fast-track extensive product development road map

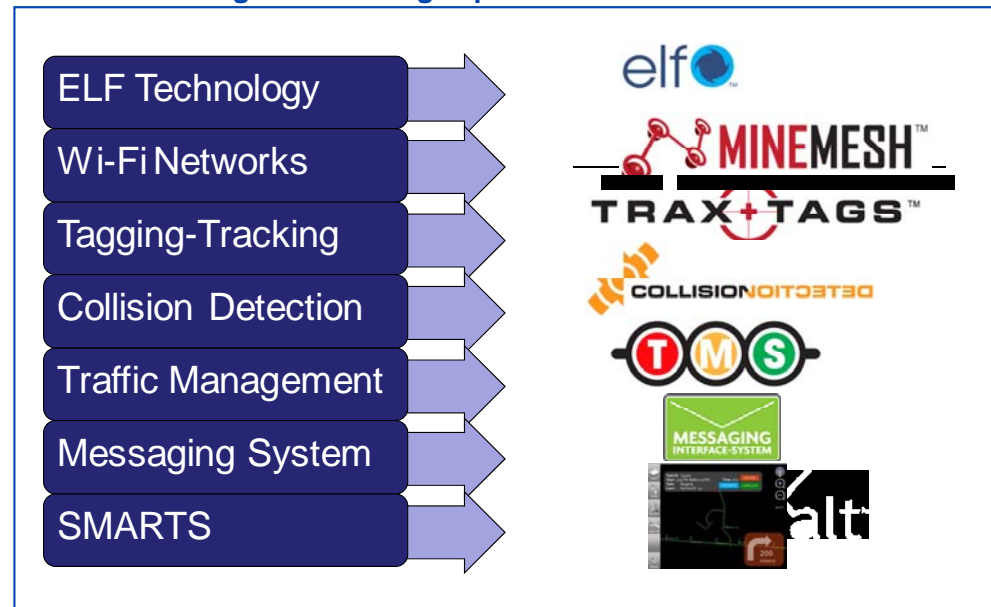
# Mining Communications and Technology

- Recently acquired Minetec represents strong strategic fit with Codan's core competencies
- Perth-based provider of enterprise-wide communications and technology solutions for the mining sector
- Specialised underground data and voice communications technologies
- Collision detection technology focussed on mine safety
- Productivity improvement scheduling software "SMARTS" for the development phase of underground mines

## Minetec vertical growth



## Hardrock underground mining capabilities





# Mining Communications and Technology (cont.)

## FY12 result commentary

- Sales of \$9.3 million delivered contribution of \$0.5 million in the six months to 30 June 2012
- Industry-leading technology being commissioned with major mining customer, which is expected to drive strong global demand in FY13
- Communications infrastructure project won for major rail upgrade in the Pilbara
- Business poised for growth as industry-leading solutions are delivered to key mining customers
- Integration activities are well underway

## FY13 objectives

- Successfully commission technology to key customers
- Scale-up the business to meet increased demand
- Implement improved management processes and systems
- Identify and create cost-effective ways to employ resources
- Continue to invest in new products and technology

# FY12 Annual Result

- Total revenue of \$179.4 million (5.8% increase over FY11)
- Driven by increase in sales in Metal Detection division and acquisition of Mining Communication and Technology Division
- Decrease in revenue for Communication Products division due to the combination of:
  - Strong growth in Radio Communications sales offset by significant reduction in Satellite Communication product sales, divested on 30 June 2012

## Total revenue by division

	FY12		FY11	
	\$m	% of total sales	\$m	% of total sales
Communications Products	66.4	37%	69.8	41%
Metal Detection	98.6	55%	92.1	54%
Mining Communications & Technology	9.3	5%	-	-
Other <sup>1</sup>	5.1	3%	7.7	5%
<b>Total Revenue</b>	<b>179.4</b>	<b>100%</b>	<b>169.6</b>	<b>100%</b>

<sup>1</sup>Includes printed circuit boards and non-core businesses divested in FY11

# FY12 Profit and Loss

- Reported net profit of \$23.1 million is a record for the company (6.2% increase over FY11)
- Underlying net profit of \$27.9 million (19.1% increase on FY11)
- Final dividend of 5.5 cents per share, fully franked, bringing full year dividend to 9.5 cents per share (5.6% increase on FY11)

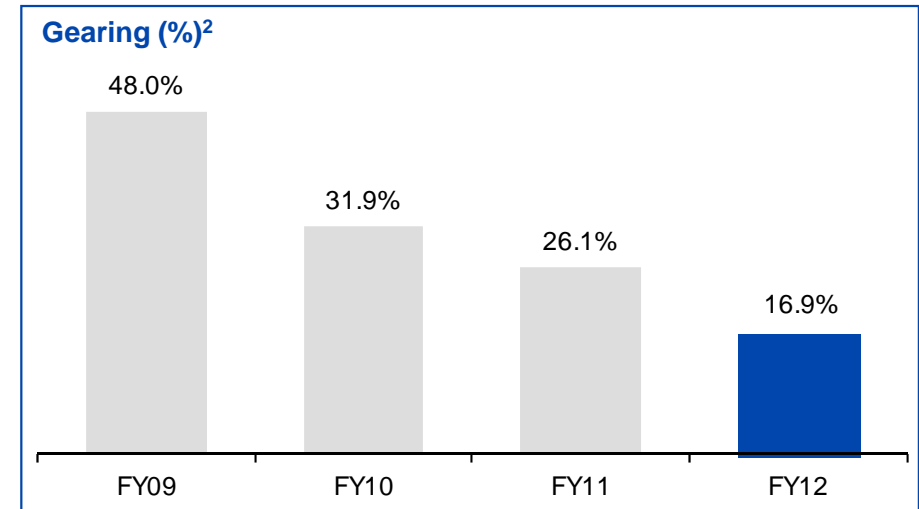
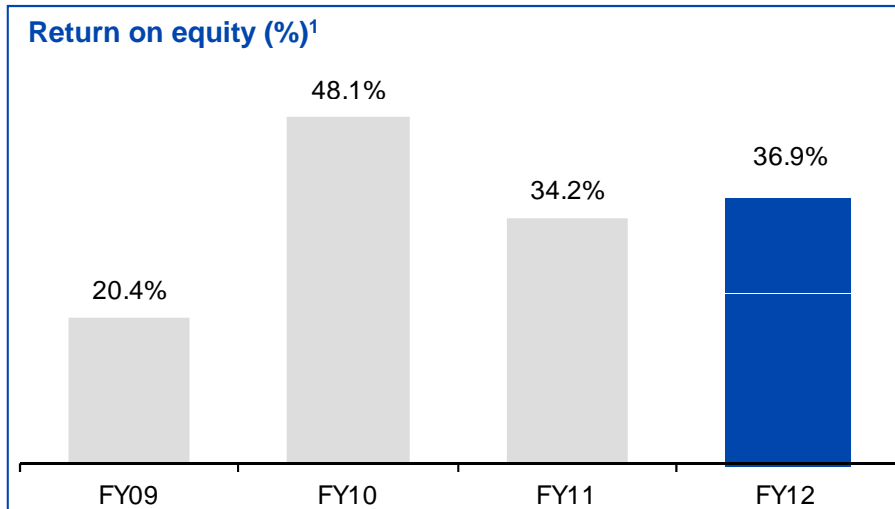
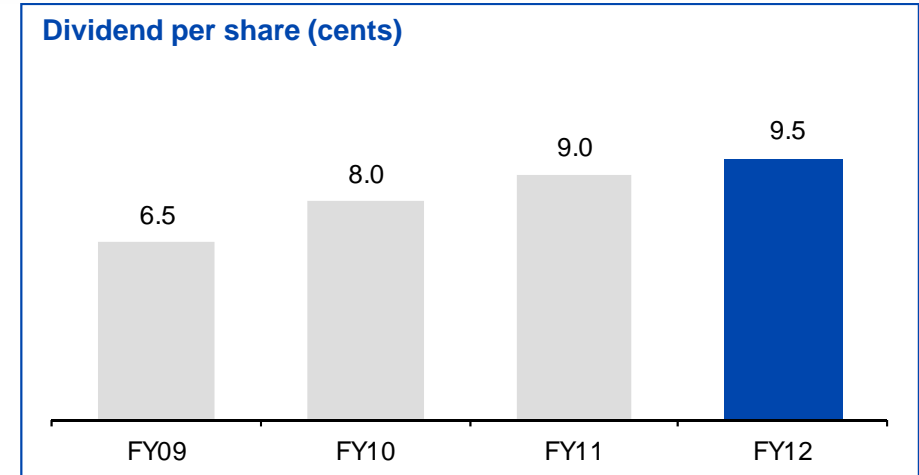
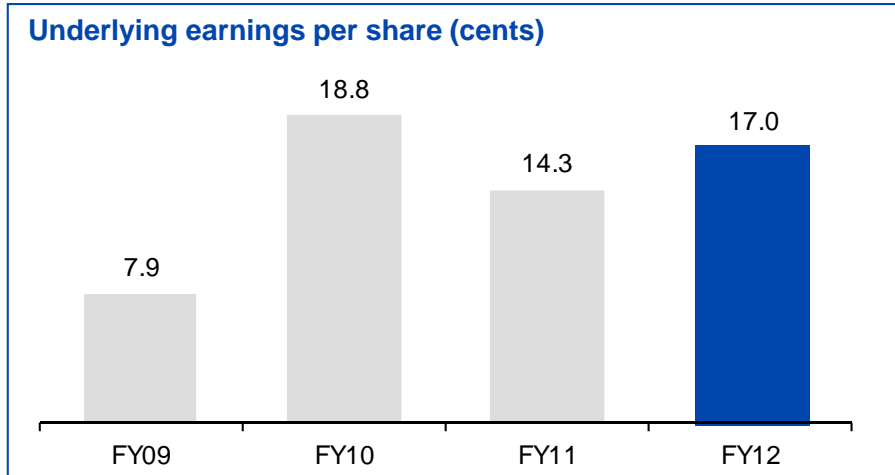
	FY12		FY11	
	\$m	% to sales	\$m	% to sales
Revenue	179.4	100%	169.6	100%
<i>Underlying business performance</i>				
EBITDA	51.7	29%	44.0	26%
EBIT	43.2	24%	35.0	21%
Net interest	(3.4)		(3.0)	
Net profit before tax	39.8	22%	32.0	19%
<b>Underlying net profit after tax</b>	<b>27.9</b>	<b>16%</b>	<b>23.4</b>	<b>14%</b>
<i>Non-underlying income / (expenses) after tax</i>				
Satellite Communications loss on disposal / impairments	(3.5)		(5.3)	
Gain / (loss) on sale of non-core businesses	-		4.8	
Acquisition and integration costs	(1.3)		(1.1)	
<b>Net profit after tax</b>	<b>23.1</b>		<b>21.8</b>	
Underlying earnings per share (fully diluted)	17.0 cents		14.3 cents	
Dividend per share	9.5 cents		9.0 cents	

# Capital Position

- Strong balance sheet position with significant debt facilities available
  - Net borrowings decreased by \$10 million with strong cash flows in the second half, the sale of Satellite Communications assets and acquisition of Minetec
  - Require substantial investment in first half of FY13 to rebuild inventories
  - Focus on maintaining balance sheet strength given volatile market conditions to allow Codan to continue to explore long-term strategic initiatives to enhance group value

	Year ending 30 June 2012	Year ending 30 June 2011
Receivables	22.8	14.6
Inventories	12.0	23.3
Payables	(35.9)	(26.4)
<b>Total working capital</b>	<b>(1.1)</b>	<b>11.5</b>
Property plant and equipment	20.0	20.7
Product development	23.3	20.3
Intangible assets	66.9	57.9
Other assets	2.3	2.0
Other liabilities	(16.2)	(15.0)
<b>Net assets before debt</b>	<b>95.2</b>	<b>97.4</b>
Net debt	(15.8)	(25.5)
<b>Net assets</b>	<b>79.4</b>	<b>71.9</b>

# Key Ratios



<sup>1</sup>Return on equity calculated as underlying NPAT / average equity. Calculation based on average annual equity

<sup>2</sup>Gearing calculated as net debt / net debt plus equity